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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 6149
INFO RHEFDIA/DIA WASHINGTON DC
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RUZDHTR/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
RHMFIUU/COMSOCCENT MACDILL AFB FL//SOCJ2/HSE//
RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 1869
RUEHNE/AMEMBASSY NEW DELHI 5801
RUEHBUL/AMEMBASSY KABUL 1210
RUEHLH/AMCONSUL LAHORE 8210
RUEHKP/AMCONSUL KARACHI 2610
RUEHPW/AMCONSUL PESHAWAR 7257
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 18 NOVEMBER 2009

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TOP STORIES
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1. (SBU) National Assembly Runs out of Time to Pass Anti-Money Laundering (AML) Bill. On Nov 4 Business Recorder reported that the National Standing Committee on Finance passed the AML bill, with the recommended amendments from the government. According to the report, the Finance Minister, Shaukat Tarin, publicly stated that the National Assembly would vote on the bill before the end of this legislative session.

(Comment: On November 18, the National Assembly prorogued its legislative session early without bringing forward the AML Bill for a full vote. Officials at the Ministry of Finance stated they would propose a new AML Ordinance, with amendments, to the Prime Minister and President as a stop-gap until the National Assembly reconvenes

on December 7. The current AML0 expires, along with 36 other Presidential ordinances, on November 28.)

12. (SBU) Gas rationing set to begin in Punjab and North West Frontier Province on November 15. On November 4, the News reported that under the 2009-10 winter gas load management plan, approved by the Federal Cabinet on November 4, industrial users and Compressed Natural Gas (CNG) pump stations will go without gas two days per week. Industrial interest groups complained bitterly in the press about the impact of the plan, but textile mill owners conceded to EconOffs that this year's plan is better than last year's approach of cutting gas for weeks on end. On November 5, various media sources reported that the manufacturing sector is strongly opposed to the government's decision to discontinue gas supply to industries for two days a week, saying this will increase the cost of running industries and further aggravate present conditions. The gas load management plan will be in effect from November 15 to March 15. Karachi's major trade and industrialists associations complained that an additional day off would significantly burden the manufacturing sector, adding that in times when industrial production is low and negative sentiments are high, the government should help the industry rather than imposing such anti-industry decisions.

(Comment: According to our contacts at the Ministry of Petroleum, the GOP's plan to ration gas to CNG stations would be hard to implement due to its political ramifications. As in previous years,

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they also noted that cutting the supply of natural gas only to CNG stations would be extremely difficult in light of the fact that gas for both customers share the same pipeline. These obstacles have thus far prevented the GOP from meeting the plan's proposed November 15 start date.)

13. (SBU) The Federal Cabinet approved a new Sugar Policy on November

14. According to local newspapers, the new policy calls for a low, uniform national price through November, shifting to free market pricing thereafter. Most of the plan then focuses on protecting access to inexpensive sugar for the poor through the Benazir Income Support Program and the government-subsidized Utility Stores. The Trading Corporation of Pakistan will be authorized to import both raw and refined sugar, and sugar beet cultivation is to be encouraged.

(Comment: This "new" policy largely reiterates existing policies. Far more people expect to benefit from subsidized sugar than the government can afford or intends to serve.)

BANKING AND FINANCE

14. (SBU) State Bank of Pakistan (SBP) launches new refinancing plan aimed at modernizing Small and Medium Enterprises (SME): On November 3, Business Recorder reported that the State Bank of Pakistan (SBP) launched a new refinancing facility for modernization of SMEs as part of its overall strategy to focus on the development of the SME sector in the country. Under the scheme, financing will initially be available to SMEs in agriculture, for the import and purchase of new rice husking machines, paddy driers and parboiling plants by sponsors of rice husking units.

15. (SBU) Trading in Terms Finance Certificates (TFC) under the Bonds Automated Trading System (BATS) started November 2. On November 3, Business Recorder reported that the trading of TFCs on the Karachi Stock Exchange (KSE) began November 2 with the introduction of the BATS. According to the report, volumes were low on the first day as investors were not familiar with the trading of debt market securities.

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(Comment: This represents the introduction of trading in corporate bonds in Pakistan, and is the first of several steps towards creating liquidity in the corporate and public debt market.)

STOCK MARKET

¶6. (SBU) Karachi Stock Exchange (KSE): Political and security concerns, including the National Reconciliation Ordinance (NRO) debate, kept the market down, with the 100 Index ending the week of November 13 at 9067.17, up 1.5 percent over the previous week's close. Overall market capitalization was down from \$31.74 to \$31.45 billion, with net foreign portfolio investment outflows of \$7.5 million.

(Comment: KSE contacts said that security concerns and the NRO will continue to keep the market under pressure. However, the IMF, which is conducting its third review of under Pakistan's Stand-By Arrangement, issued a statement indicating that while risks remain in the economy, there are signs of recovery such as declining inflation and improving external deficit position. The discussions are expected to be completed shortly, paving the way for the release of the 4th tranche of funds totaling \$1.2 billion. In addition, the government is considering tapping debt markets via an Islamic issue in the first half of next year (expected to be between \$500 million and \$1 billion) would be the driven force to market up in the next couple of weeks.)

¶7. (SBU) The Lahore Stock Exchange (LSE): The LSE Index has been in a holding pattern, slipping just under one percent since November 1.

Investors made no bold moves in or out of the market, taking a "wait and see" attitude toward President Zardari's National Reconciliation Ordinance woes and increased terrorist attacks in Peshawar.

POWER AND WATER

¶8. (SBU) Tarbela and Mangla reservoir levels have dropped more than

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a foot a day since November 1, according to Water and Power Development Authority (WAPDA) data. At the current pace, Tarbela could be out of water in as little as five weeks. (Comment: The government has promised a relatively high price for next spring's wheat, in the hopes of encouraging a repeat of 2009's bumper crop. However, low reservoir water levels throughout the growing season could interfere with irrigation needs and leave production results at the mercy of Mother Nature.)

PATTERSON